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Special Report:

**San Francisco
Bay Area
Economy:
1989 and 1990**

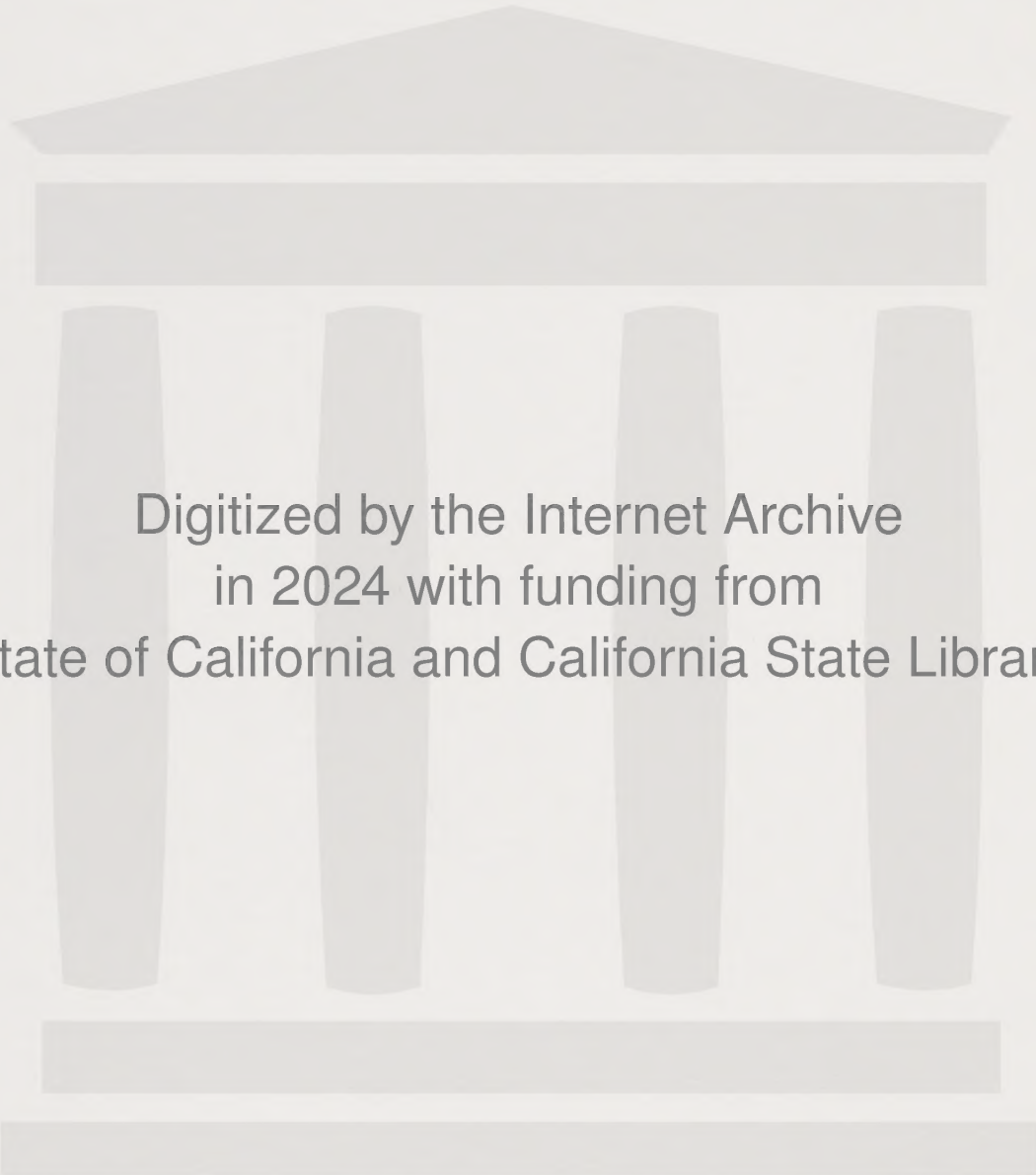
January 25, 1989



Association of Bay Area Governments

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Special Report of the Association of Bay Area Governments:

San Francisco Bay Area Economy: 1989 and 1990

January 25, 1989

8:30 a.m.	Registration
9:00 a.m.	Welcome and Overview <i>Eugene Y. Leong</i> <i>Deputy Executive Director, ABAG</i>
9:10 - 9:55 a.m.	Regional and County-by-County Economic Forecast Understanding the Forces Driving Employment Growth Labor Supply and Inflation: Wage Price Spirals Ahead? <i>Raymond J. Brady</i> <i>Research Manager, ABAG</i>
9:55 - 10:05 a.m.	Break
10:05 - 10:50 a.m.	Personal Income and Household Income Growth Changing Patterns in Retail Trade Retail Sales: What's in the Future for Each County <i>Poulicos Prastacos</i> <i>Senior Analyst, ABAG</i>
10:50 - 11:00 a.m.	Break
11:00 - 12:00 noon	Guest Commentary and Roundtable Discussion <i>Walter Hoadley, Senior Research Fellow, Hoover Institution</i> The Next Washington Administration -- Economic Change Ahead? Implications for the Region <i>Cynthia Kroll, Senior Analyst, Center for Real Estate and Urban Economics, UCB</i> Commercial Building Demand in the Bay Area <i>Ken Ballard, Senior Economist, Pacific Gas & Electric Company</i> Anticipating the Regional Economy under Changing National and International Economic Conditions

SAN FRANCISCO BAY AREA ECONOMY: 1989 and 1990

STAFF SPEAKER BIOGRAPHIES

RAYMOND J. BRADY, Director of Information and Analysis Services, is responsible for analytical support services and systems modeling for the Association of Bay Area Governments. His responsibility consists of the maintenance and expansion of information services; economic, demographic, and land use models; and the design of new systems required in the support of other programs in the agency. Before coming to ABAG, he worked in research groups at the University of Minnesota and the University of New Mexico and for a private environmental engineering consulting firm. Dr. Brady has authored several reports, technical articles, and journal publications. Dr. Brady teaches quantitative methods part-time at the University of California, Berkeley. He has an economics degree from Louisiana State University, and a planning degree from the University of Arizona. He received his doctorate in Management Systems Engineering from Tulane University in 1980.

POULICOS PRASTACOS, Senior Analyst with the Association of Bay Area Governments, is responsible for the development of various forecasting models and the design of decision support information systems. His interests lie in the areas of land use-transportation models and forecasting, operations research, and statistical techniques and application of information systems in the public sector. He has recently concluded analysis of retail sales in the San Francisco Bay Region.

Before assuming his current position, he worked at the University of Illinois, at Argonne Laboratories, the Corps of Engineers and as an independent consultant performing a variety of transportation and planning studies. Dr. Prastacos has authored several journal publications and reports. Dr. Prastacos is also a Consulting Associate Professor at Stanford University teaching methods of transportation systems planning and an advisor to the Bureau of the Census in Greece. He is a graduate of Columbia University and the University of Illinois at Champaign-Urbana, where he received his doctorate in Transportation Systems Planning in 1981.

EUGENE Y. LEONG, Deputy Executive Director of the Association of Bay Area Governments (ABAG), is responsible for overseeing and managing all of the agency's programs. These include environmental and energy studies, as well as planning and technical analyses in housing, economic development, demographic projects, and land use. Before assuming his current responsibilities, he spent over ten years as a project manager for ABAG and several private environmental planning/engineering consulting firms conducting a wide variety of environmental studies. Dr. Leong has authored many reports and technical articles. He lectures in environmental management and has made numerous presentations at conferences. Dr. Leong is a graduate of the University of Michigan and UCLA, where he received his doctorate in Environmental Science and Engineering in 1974.

Guest Speaker Biographies

KENNETH P. BALLARD, Senior Economist at the Pacific Gas and Electric Company (PG&E), is responsible for its service area's economic and financial forecasts. In the past, he has worked as a forecaster at Wharton Econometric Forecasting Associates in Philadelphia and the Bureau of Economic Analysis of the Department of Commerce in Washington, D.C. He has published widely on methods of regional forecasting and migration among regions. Dr. Ballard received his BA degree from the University of California and his Ph.D. degree from the University of Pennsylvania.

WALTER E. HOADLEY, Senior Research Fellow at the Hoover Institution, Stanford University. He previously served as executive vice president and chief economist at the Bank of America from 1968-1981.

Dr. Hoadley is active in a wide variety of United States and international business and professional groups, and holds a number of corporate directorships. He is an international author and lecturer and is president-elect of the University of California Alumni Association and past-president of the Commonwealth Club of California.

He has written numerous articles on forecasting, global finance, and other economic subjects. His book, "Looking Behind the Crystal Ball", has just been published.

Dr. Hoadley received his education from the University of California at Berkeley, where he received his master's degree and his doctorate in economics.

CYNTHIA A. KROLL is a California Economist for the Center for Real Estate and Urban Economics at U.C. Berkeley. Dr. Kroll analyzes and forecasts statewide and regional economic trends and their effects on office, industrial and retail building. Since coming to the Center in 1983, her research topics have included the growth of suburban office space in the San Francisco Bay Area, office space construction and vacancies in California's major metropolitan counties, analysis of changes in retail spending and the effects on shopping center development, and growth trends in California's Central Valley. Her most recent research includes growth management of nonresidential building in suburban places, residential growth controls in Southern California, and demand and supply of research and development space in Silicon Valley.

Dr. Kroll holds master's and doctoral degrees in city and regional planning from the University of California at Berkeley. Prior to joining the Center for Real Estate and Urban Economics in 1983, she provided development expertise to the California Office of Economic Policy, Planning and Research and to the Association of Bay Area Governments. She also spent six years with SRI International as a consultant to government agencies and industry on the impacts of new technologies on community growth.

ASSOCIATION OF BAY AREA GOVERNMENTS

The Association of Bay Area Governments (ABAG) is owned and operated by the cities and counties of the San Francisco Bay Area. It was established by them in 1961 to protect local control, plan for the future, and promote cooperation on areawide issues.

ABAG was the first Council of Governments in California. It is one of 534 regional planning agencies across the nation working to help solve problems in areas such as environmental quality, housing, transportation and economic development.

In ABAG's region there are 98 cities and the nine counties of Alameda, Contra Costa, Marin, Napa, San Francisco, San Mateo, Santa Clara, Solano, and Sonoma. Over five million people live in this 7,000 square mile area. Another one million are expected by the year 2000.

Where will these people live, where will they work, will transportation be adequate? How can we control air and water pollution, will water supplies be sufficient? Are we prepared for a major natural disaster? These are the kinds of questions that cannot be addressed easily without cooperative action among many agencies, organizations and the general public.

Through its role as an association of cities and counties, ABAG has been designated by the state and federal governments as the official comprehensive planning agency for the Bay Area. Its locally adopted *Regional Plan* provides a policy guide for planning the region's housing, economic development, environmental quality, transportation, recreation, health and safety.

One of ABAG's vital functions is to provide a forum to resolve local differences through workable compromises. Its active public information and public participation program encourages citizen involvement in planning and policy decisions. The Association also sponsors workshops and conferences where local officials, business, industry, special interest groups and private citizens can discuss programs, regulations and legislation affecting their communities.

ABAG's member governments are eligible to participate in credit poolings, master leasing, pooled insurance and health benefits programs. The Training Institute provides high quality training on a wide variety of regulations and computer software programs at competitive fees.

ABAG's professional staff, headed by an executive director, includes specialists in such fields as public administration, urban planning, environmental resources, engineering, economics, law, business administration, demography and communications. They provide technical assistance to member governments and the background information needed by the Association's policy-making bodies.

The General Assembly is the overall governing body of the organization. It meets at least twice a year to adopt the budget and overall work program, review major actions taken by the Executive Board, and adopt regional policies and plans. Each member city and county sends one representative to this body.

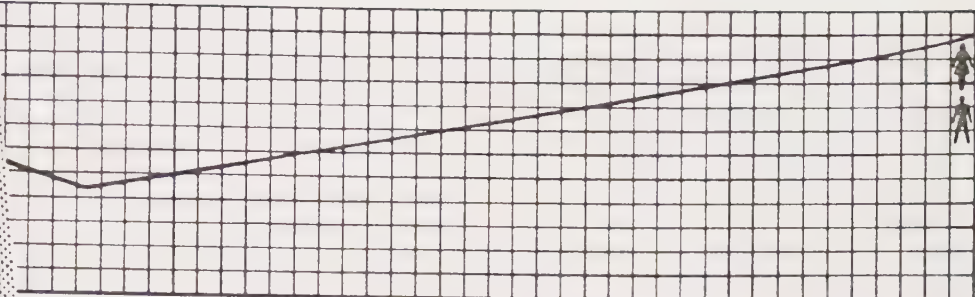
ABAG's operations are directed by an Executive Board composed of up to 38 elected officials from member cities and counties. The Board meets monthly to discuss and resolve regional concerns, make operating decisions, control expenditures, and recommend major policies to the General Assembly.

The Regional Planning Committee oversees the agency's planning programs and makes recommendations to the Executive Board. It is composed of local elected officials and representatives of business, labor, community organizations and other regional agencies.

Much of ABAG's work is carried on by committees appointed by the Executive Board, including joint committees with the Metropolitan Transportation Commission. Advisory committees and task forces are appointed from time to time to oversee special programs in areas such as air quality, water quality, energy, and economic development.



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Center for Analysis and Information Services

The Center for Analysis and Information Services (CAIS) is the research and information unit of the Association of Bay Area Governments, the regional planning agency for the nine-county San Francisco Bay Area.

CAIS provides information and analysis services to public organizations and the private sector. Population projections, demographic and economic analysis, small area market research, and identification of development constraints and potentials are just a few examples of data services that CAIS provides.

Whether you need data, personalized research, planning assistance or technical consulting, CAIS can perform these for you at a cost within your planning or marketing budget.

Please call us for more information.

Raymond J. Brady, D. Engr.
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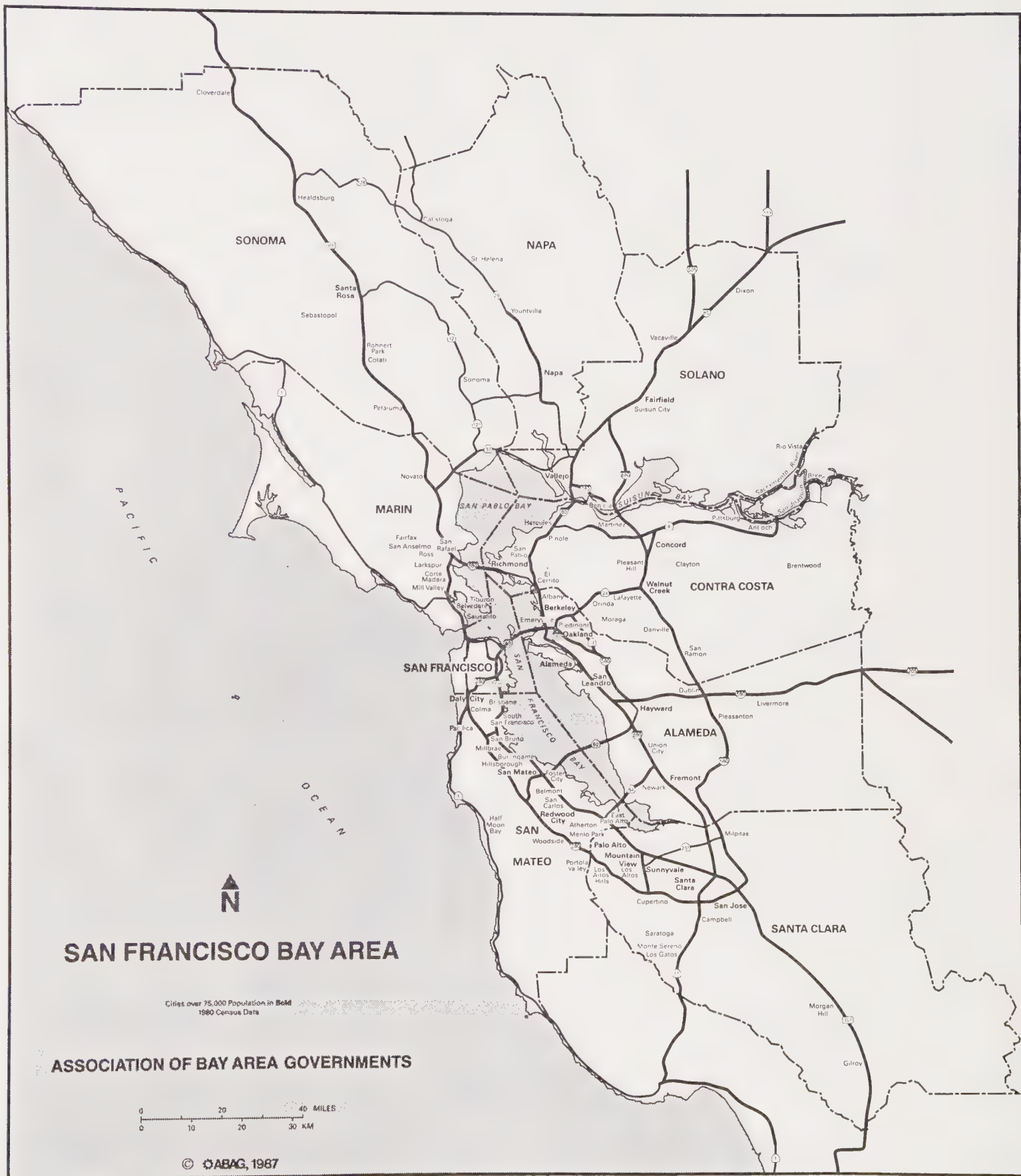
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ABAG Special Report:

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January 25, 1989

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Introduction

This is the first in a series of short-term economic forecasts that will be prepared by the Analysis Group at the Association of Bay Area Governments. Our discussion today focuses on job growth, inflation, retail sales and income growth, as well as some underlying constraints that could affect our forecast and others.

Increasingly, the public sector at the regional and smaller areas are concerned about the future of the economy. Administrators of local governments recognize the importance of a healthy economy to their local communities. This importance comes in the form of jobs for their local citizens, as well as revenues needed to pay for services demanded by these same individuals. Therefore, a primary client of our short-term economic forecasts are the local governments that comprise the Association of Bay Area Governments. In addition, however, the private sector is increasingly using economic and demographic information developed by ABAG. We have a responsibility to provide our interpretation of the potential economic and demographic constraints that could affect decisions in the offices of corporate boardrooms and small businesses. All forecasts should be viewed with the eye that they represent expert opinion. Experts, however, are known to occasionally develop jaundice eyes when it comes to viewing the future. Even though economic theory is highly developed, understanding the timing of economic events, impacts of public policy and the interrelationship and feedback that occurs in economic systems still has not developed into an exact science. Therefore, the science of economics is balanced against the reality that art still plays an important role in analysis.

We shouldn't underestimate the importance or impact of economics on our everyday lives. If we as citizens, policy makers and entrepreneurs are to be successful in creating not only more wealth for ourselves but also for all citizens of society, understanding economics and its impact is of critical importance.

What This Report Contains?

This report contains historical trends in growth, assumptions about general economic activity, estimates of growth in 1988 and forecasts of economic, income and retail sales changes in 1989 and 1990.

Trends in the Bay Area Economy:

slowing, but still strong?

Rank of Industry Sector Contribution to Overall Economic Growth 1972-1988

<u>Sector</u>	<u>Rank</u>	<u>Jobs Added</u>
Services	1	420,500
Business Services		163,300
Health Services		71,000
Retail Trade	2	234,100
Manufacturing	3	155,000
Durable Goods		140,200
Finance, Insurance, and Real Estate	4	96,200
Government	5	67,500
Wholesale Trade	6	65,000
Construction	7	52,000
Transportation, Communication, and Utilities	8	19,000

Source: ABAG and *Annual Planning Information*, California Employment Development Department.

Employment Growth in Durable Goods Manufacturing 1972-1988

4

1972-1988	1972-1980	1980-1988	1980-1985	1985-1988
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140,200	130,000	10,200	20,100	-9,900
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Source: ABAG and *Annual Planning Information*, California Employment Development Department.

Decentralization of Employment in the Bay Area Economy 1972-1988

<u>County</u>	Employment Share	
	<u>1972</u>	<u>1988</u>
Alameda	23.1%	19.7%
Contra Costa	7.8%	9.4%
Marin	2.7%	3.2%
Napa	1.3%	1.4%
San Francisco	25.1%	19.9%
San Mateo	10.7%	10.2%
Santa Clara	22.9%	28.3%
Solano	2.9%	3.3%
Sonoma	3.4%	4.6%

Source: *Wage and Salary Employment Data*, California Employment Development Department.

Overall Annualized Job Growth Trends in San Francisco Bay Area 1972-1988

1972-1988	1972-1980	1980-1988	1980-1985	1985-1988
62,000/yr.	81,800/yr.	58,600/yr.	61,800/yr.	53,700/yr.

Source: ABAG and *Annual Planning Information*, California Employment Development Department.

Annualized Growth in Civilian Labor Supply 1972-1988

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1972-1988	1972-1980	1980-1988	1980-1985	1985-1988
71,600	78,600	64,400	67,400	59,300

Source: ABAG, and 1970 and 1980 Censuses.

Percentage Distribution of Job Growth in Bay Area 1985-1988

<u>Sector</u>	<u>Percentage</u>
Construction	3%
Wholesale Trade	3%
Retail Trade	19%
F.I.R.E.	7%
Services	55%
Government	13%
Total	151,700

Note: Manufacturing, Transportation, Communication and Utilities and Agriculture showed negative growth during this period.

Source: California Employment Development Department.

Contribution to Growth in the Bay Area Household Income 1980-1988

Real Growth in Wages and Salaries	45%
Increased Workers in Households	43%
Growth in Investment Type Income	12%

Source: ABAG.

Bay Area Economic Forecast Assumptions

Bay Area Inflation Assumption

	<u>CPI</u>	<u>Rental Housing Inflation Index</u>
1986	3.1%	8.3%
1987	3.3%	4.6%
1988	4.4%	5.1%
<u>Estimate</u>		
1989	4.9%	5.9%
1990	5.8%	6.0%
1986-1990	21.5%	29.9%

Source: Bureau of Labor Statistics(Historical); ABAG(Forecast).

Comparison of CPI Increase and Wage Increase in Current Dollars in the Bay Area

	<u>Wage Increase</u>	<u>CPI</u>
1986-1987	3.9%	3.3%
1987-1988	4.5%	4.4%
<u>Estimate</u>		
1988-1989	5.3%	4.9%
1989-1990	5.7%	5.8%

Source: Bureau of Economic Analysis and Bureau of Labor Statistics (Historical); ABAG (Forecast).

Real Wage Increases for Bay Area Workers 1986 Constant Dollars

1972	\$27,793	<u>Estimate</u>	
1980	\$24,337	1988	\$25,990
1986	\$25,468	1989	\$26,310
1987	\$25,675	1990	\$26,630

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Real Wage Increases for Bay Area Workers on the Margins

1986-1987	\$207	1988-1989	\$320
1987-1988	\$317	1989-1990	\$320

Source: Bureau of Economic Analysis (Historical); ABAG (Forecast).

General Economic Outlook

<u>1989</u>				<u>1990</u>			
<u>Inflation</u>				<u>Inflation</u>			
Yes	60%	↑		Yes	70%	↑	
No	40%		↓	No	30%		↓
			<u>Recession</u>				<u>Recession</u>
			Yes 30%				Yes 50%
			No 70%				No 50%

Impacts:

- 1 Trade deficit and budget deficit on consumer confidence
- 2 Federal Reserve Policy to dampen inflation and decrease the chances of a recession
- 3 Financial Institution, particularly Savings and Loans on budget deficit
- 4 Debt
- 5 "Muddle Through Theory"

Wage-Price Spirals Ahead?

Labor Supply and Inflation: Wage Price Spirals Ahead? Annual Change in the Bay Area

	<u>1980-1985</u>	<u>1985-1986</u>	<u>1986-1987</u>	<u>1987-1988</u>	<u>1988-1989</u>	<u>1989-1990</u>
Labor Supply Growth	67,400	63,200	55,600	59,600	55,600	59,100
Job Demand Growth	61,800	12,100	71,300	61,900	69,500	62,500
Difference: Labor and Jobs	5,600	51,100	-15,700	-2,300	-13,900	-3,400

Source: ABAG.

A Look at 1988

1988 Regional Job Performance

	<u>1988</u>	<u>Historical (1980-1988)</u>
Total	69,500	58,600
Construction	1,900	3,800
Manufacturing	8,000	1,100
T. C. U.	2,000	2,900
Wholesale Trade	4,500	3,400
Retail Trade	14,000	14,800
F. I. R. E.	3,000	4,500
Services	34,000	27,700
Business Services	17,000	11,900
Government	2,100	1,600

Note: Total for historical does not equal sum of sectors because of loss of jobs in agriculture.

Source: ABAG and *Annual Planning Information*, California Employment Development Department.

County Job Growth in 1988

<u>County</u>	<u>1988</u>	<u>Historical (1980-1988)</u>
Alameda	10,800	10,600
Contra Costa	7,700	9,600
Marin	1,800	2,600
Napa	1,400	1,100
San Francisco	7,500	3,400
San Mateo	6,000	5,200
Santa Clara	26,200	18,400
Solano	4,100	3,000
Sonoma	4,000	4,700
Total	69,500	58,600

Source: ABAG.

Major Economic Sectors that Contributed to Job Growth

	<u>% of Total Growth</u>	<u>Primary Sector</u>	<u>Secondary Sector</u>
Alameda	63%	Services (Business)	Retail
Contra Costa	55%	Services	Retail
Marin	53%	Services	Retail
20 Napa	77%	Services (Health)	Retail
San Francisco	100%	Services (Business)	Retail
San Mateo	63%	Services (Business)	Retail
Santa Clara	70%	Services (Business)	Manufacturing
Solano	50%	Services	Retail/Construction
Sonoma	68%	Services	Retail

Source: ABAG.

Estimated Population Growth

July 1 Estimate

	<u>1987 Population</u>	<u>1988 Growth</u>
Alameda	1,227,300	14,800
Contra Costa	743,900	17,100
Marin	227,700	800
Napa	105,400	1,100
San Francisco	741,600	300
San Mateo	623,500	5,300
Santa Clara	1,421,600	21,300
Solano	297,700	9,200
Sonoma	354,500	9,500
Region	5,743,200	79,400

Source: ABAG.

The Forces Driving Employment Growth in the Bay Area

- Strong linkages between High Tech (Manufacturing and Services) sectors
- Gross exports increased 4.3% between 1987-1988 in inflation adjusted dollars
- Personal consumption expenditures increased by 2% in inflation adjusted dollars
- Total personal income increased 2.7% in inflation adjusted dollars

Potential Problems

- Overheating of economy may create wage-price inflation
- National economic policies and international economic instability could affect local economies
- Many industries are at operating capacity
- Local government policies and inflationary land costs
- Lack of retraining programs affects labor forces ability to adjust to new industries

Source: ABAG.

What's Ahead?

1989 Regional Job Forecast

	<u>1989 Forecast</u>	<u>1988 Estimate</u>
Total	62,500	69,500
Construction	1,900	1,900
Manufacturing	4,400	8,000
T. C. U.	3,200	2,000
Wholesale Trade	3,700	4,500
Retail Trade	14,500	14,000
F. I. R. E.	4,500	3,000
Services	29,200	34,000
Business Services	13,500	17,000
Government	1,100	2,100

Source: ABAG.

Forecast County Job Growth in 1989

<u>County</u>	<u>1989 Forecast</u>	<u>1988 Estimate</u>
Alameda	12,000	10,800
Contra Costa	8,600	7,700
Marin	2,000	1,800
Napa	1,500	1,400
San Francisco	6,300	7,500
San Mateo	7,000	6,000
Santa Clara	16,800	26,200
Solano	4,000	4,100
Sonoma	4,300	4,000
Total	62,500	69,500

Source: ABAG.

1990 Regional Job Forecast

	<u>1990 Forecast</u>	<u>1989 Forecast</u>
Total	65,000	62,500
Construction	3,000	1,900
Manufacturing	8,400	4,400
T. C. U.	4,100	3,200
Wholesale Trade	4,000	3,700
Retail Trade	11,900	14,500
F. I. R. E.	5,400	4,500
Services	27,200	29,200
Business Services	12,000	13,500
Government	1,000	1,100

Source: ABAG.

1990 Forecast

- No recession
- Early stages of stag-flation
- Jump in Bay Area inflation
- Jump in Interest Rate
- "Washington going nowhere"

Difference between Projections 87 and Latest Short-term Forecast 1985-1990 Job Growth

<u>County</u>	<u>Projections 87</u>	<u>Latest Short-term Forecast</u>
Alameda	62,600	50,600
Contra Costa	50,600	54,100
Marin	16,800	11,300
Napa	6,100	6,600
San Francisco	32,900	26,000
San Mateo	36,600	32,400
Santa Clara	81,800	55,000
Solano	17,700	18,200
Sonoma	19,500	21,100
Region	324,600	275,300

Source: ABAG, *Projections 87* Employment Estimate prepared December 1986.

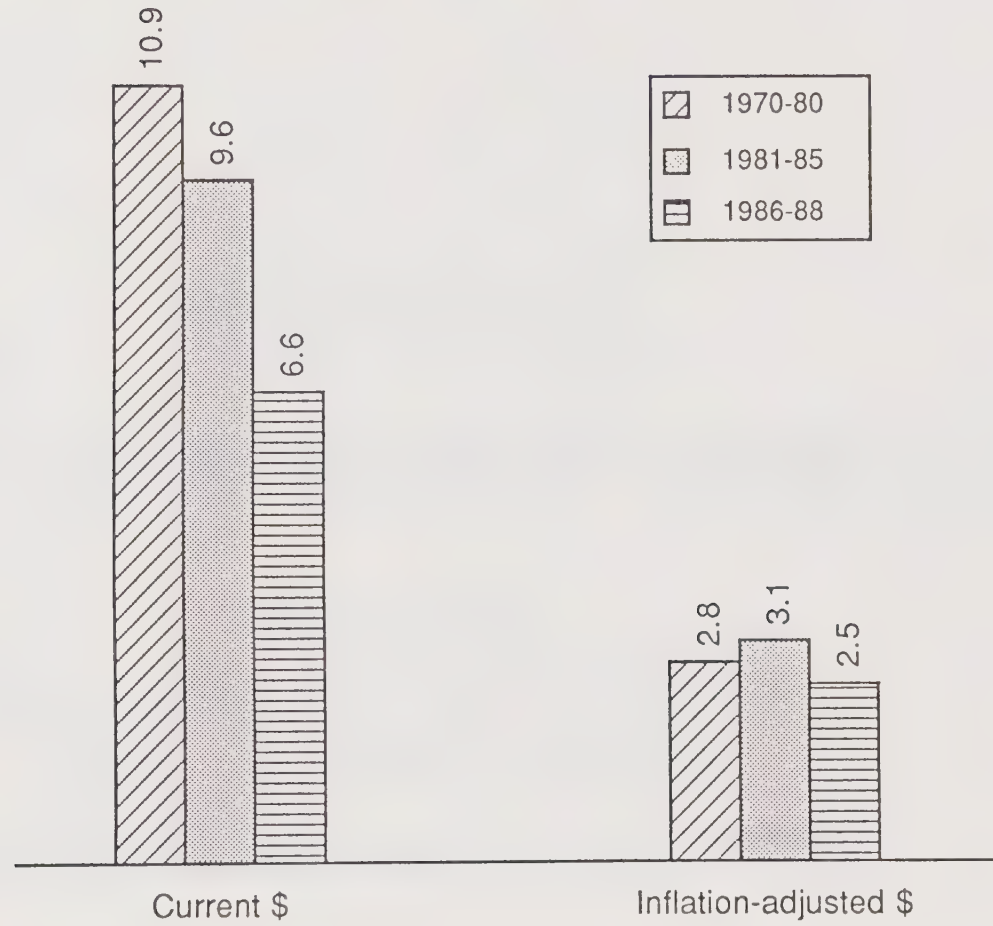
Income Analysis and Forecast

**Average Annual Percent Growth
Total Personal Income
San Francisco Bay Region
1970-1988**

	<u>Current \$</u>	<u>Inflation-Adjusted \$</u>
Bay Region	9.8%	2.6%
California	10.6%	2.8%
USA	9.5%	2.4%

Source: Bureau of Economic Analysis; ABAG


Average Annual Percent Growth
Total Personal Income
San Francisco Bay Region
1970-88



Factors Affecting Income Growth

- Employment
- Wages
- Investment Income
- Price Index (CPI)

Total Personal Income Growth San Francisco Bay Region, 1988-1990 (Current \$)

	<u>1988</u>	<u>1989</u>	<u>1990</u>
Percentage Growth in:			
Employment	2.1%	2.2%	2.1%
Wages/employee	4.5%	5.4%	5.5%
CPI	4.4%	5.0%	5.2%
Investment Income	3.1%	3.6%	3.8%
			
Personal Income	7.2%	7.8%	7.5%

Source: ABAG

Comparison of Personal Income Growth 1988-1990 (Current \$)

	<u>1988</u>	<u>1989</u>	<u>1990</u>
San Francisco Bay Region	7.2%	7.8%	7.5%
California	8.6%	8.8%	8.0%
USA	7.4%	7.5%	6.9%

Source: Commission on State Finance; DRI; ABAG

Average Annual Percent Growth in Total Personal Income (Inflation-Adjusted \$) 1980-1990



Source: ABAG

Average Household Income In San Francisco Bay Area Counties 1985 and 1990 (in Current \$)

	<u>1985</u>	<u>1990</u>
Alameda	34,900	45,930
Contra Costa	42,500	54,890
Marin	48,800	64,100
Napa	35,000	45,060
San Francisco	33,400	44,310
San Mateo	44,200	57,130
Santa Clara	44,300	58,250
Solano	33,300	43,940
Sonoma	32,500	41,820
Region	39,200	51,410

Source: ABAG

Household Income Growth Determined by:

- Inflation
- Income Per Worker
- Labor Force Participation Rates

Average Household Income Growth (Inflation-Adjusted \$)

	Percent Growth <u>1985-1990</u>	Percent of Income Growth Derived from Increased Labor Force Participation <u>in Households, 1985-1990</u>
Alameda	5.7	74
Contra Costa	3.8	39
Marin	5.5	29
Napa	3.4	66
San Francisco	6.6	64
San Mateo	3.9	21
Santa Clara	5.6	5
Solano	6.0	0
Sonoma	3.4	62
Region	5.4	38

Source: ABAG

Retail Trade Analysis and Forecast

Significance of Retail Sales

- Employment in Retail Trade
- Retail Sales vs. Taxable Sales
- \$53 Billion in 1987
- Sales Tax Revenues to Government

Taxable Sales Classification

- Retail Stores

 - Nondurable Goods

 - Apparel

 - General Merchandise

 - Specialty

 - Food

 - Restaurants and Bars

 - Service Stations

 - Durable Goods

 - Home Furnishings

 - Building Materials

 - Auto Dealers

- Business and Professional Services

- All Other Outlets

Taxable Sales Classification

Retail Stores

Nondurable

Apparel

(Women's apparel, Men's apparel,
Family apparel, Shoes)

General Merchandise (Limited-price variety, Department,
Drug stores, Other)

Specialty (Gifts and novelties, Sporting goods,
Florists, Musical instruments, Stationery,
Jewelry, Office and store supplies,
Candy and tobacco, Other specialties)

Food (Food stores selling all liquors, Other
food stores, Packaged liquor stores)

Eating and Drinking (Eating places, Drinking places)

Service Stations

Durable

Home Furnishings

(Household and home furnishings,
Household appliance dealers)

Building Materials (Lumber and building materials, Hardware
stores, Plumbing and electrical
supplies, Paint, Glass and wallpaper)

Auto Dealers

(New and used motor vehicle dealers,
Automotive supplies, Trailer, boat,
cycle and plane dealers)

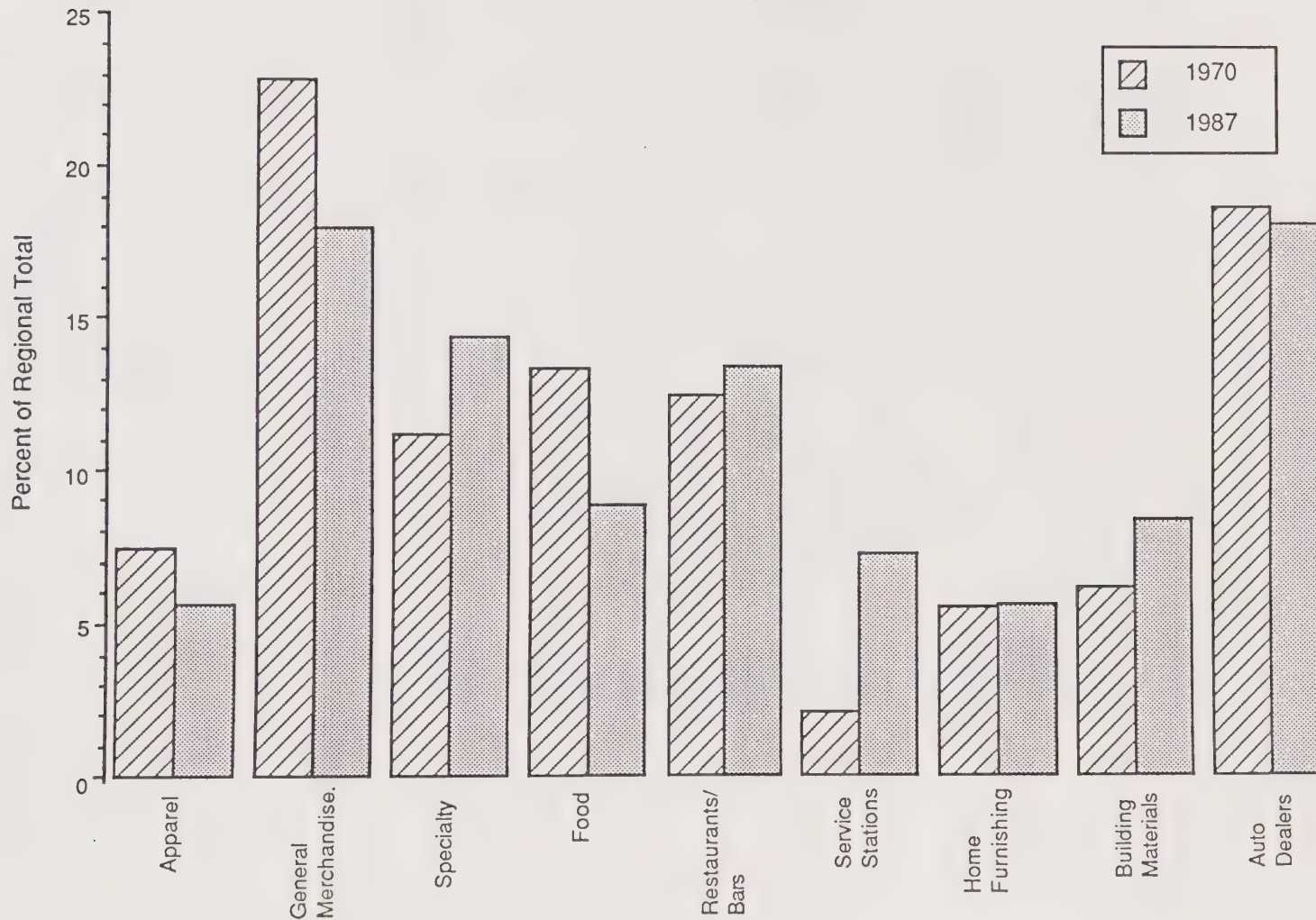
Business and Personal Services

(Hotels and motels, Automotive repair,
Repair and hand trade, Clubs,
Shoe repair, Morticians, Personal
services shops and amusements)

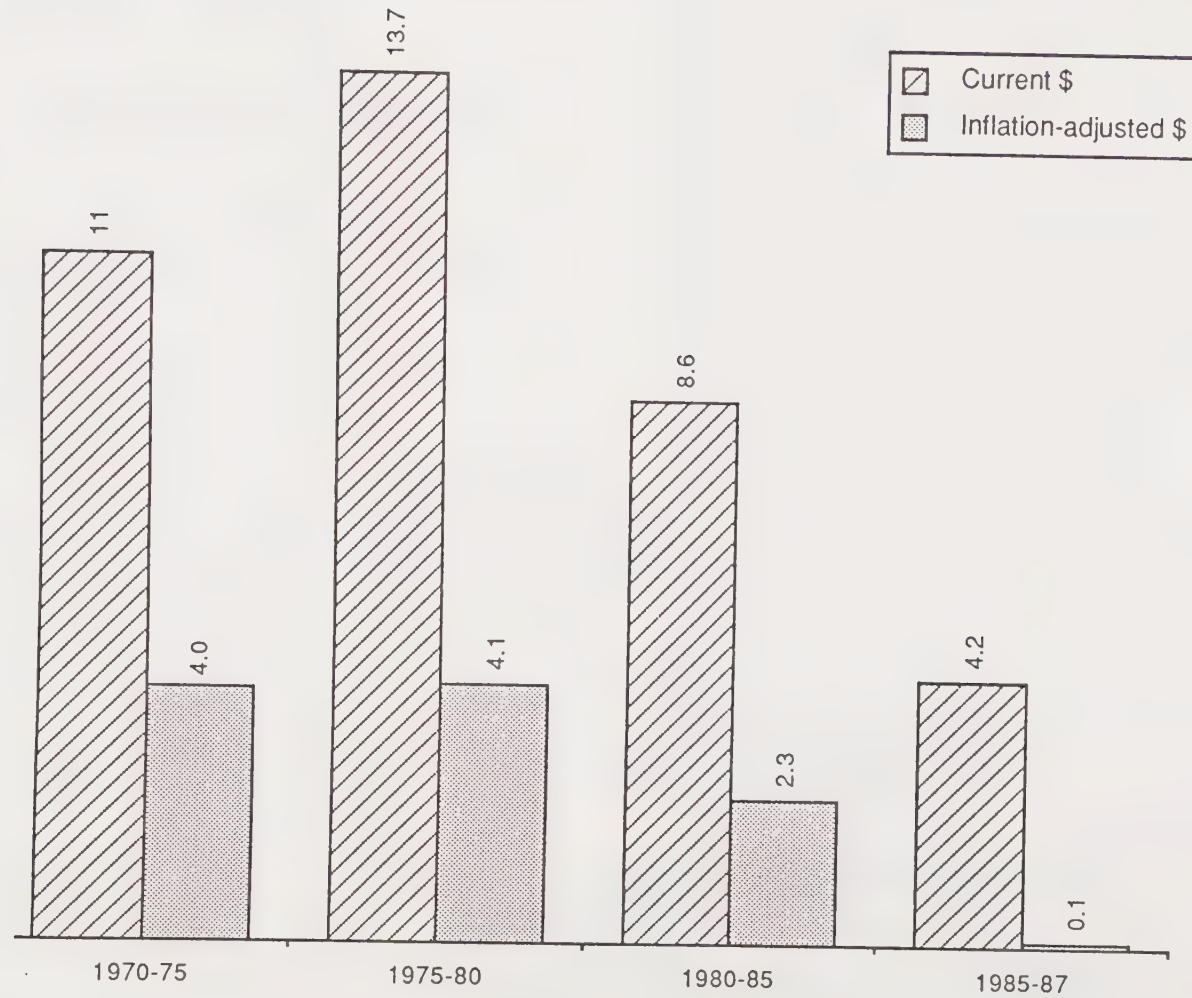
All Other Outlets

(Nonstore retailers, Temporary and part-time
permittees, Occasional sales of autos/
boats, Cigarette vendors, Public utilities,
Manufacturing/ Wholesale outlets)

Distribution of Retail Stores Taxable Sales Among the Various Store Groups Bay Region 1970-1987



Average Annual Percent Growth of Taxable Sales Bay Region 1970-87



Source: Board of Equalization; ABAG

Durable Goods Sales

Strong in 1980-1985

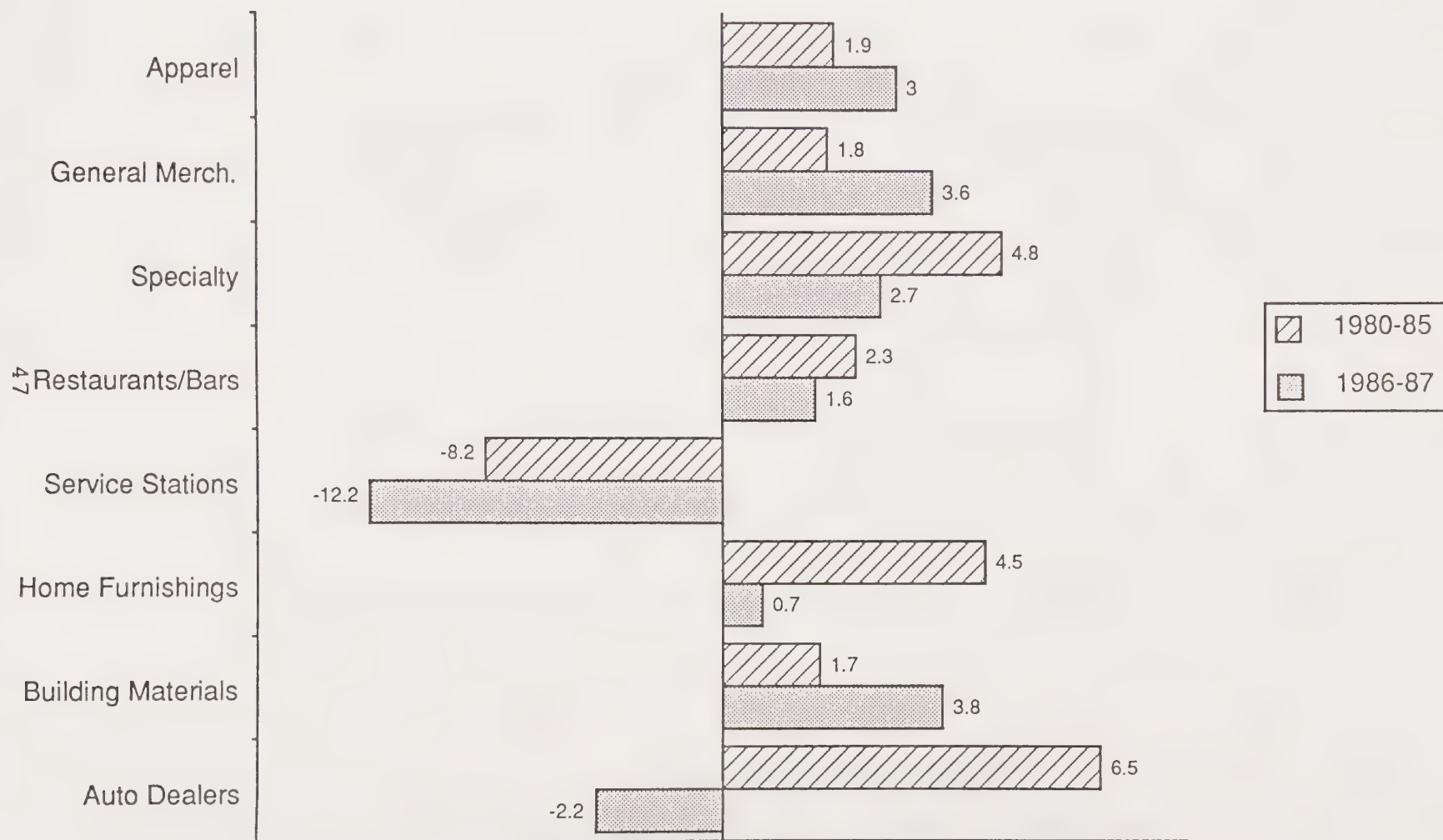
Soft in 1986-1987

(Inflation-adjusted)

	Average Annual Percent Growth <u>1980-1985</u>	Average Annual Percent Growth <u>1986-1987</u>
Durable Goods	4.9	-0.2
Nondurable Goods	0.5	0.0

Source: Board of Equalization; ABAG

**Average Annual Percent Growth in Taxable Sales
for Various Retail Store Groups
San Francisco Bay Region, 1980-87
(inflation-adjusted)**



Decentralization of Taxable Sales San Francisco Bay Region 1970 and 1987

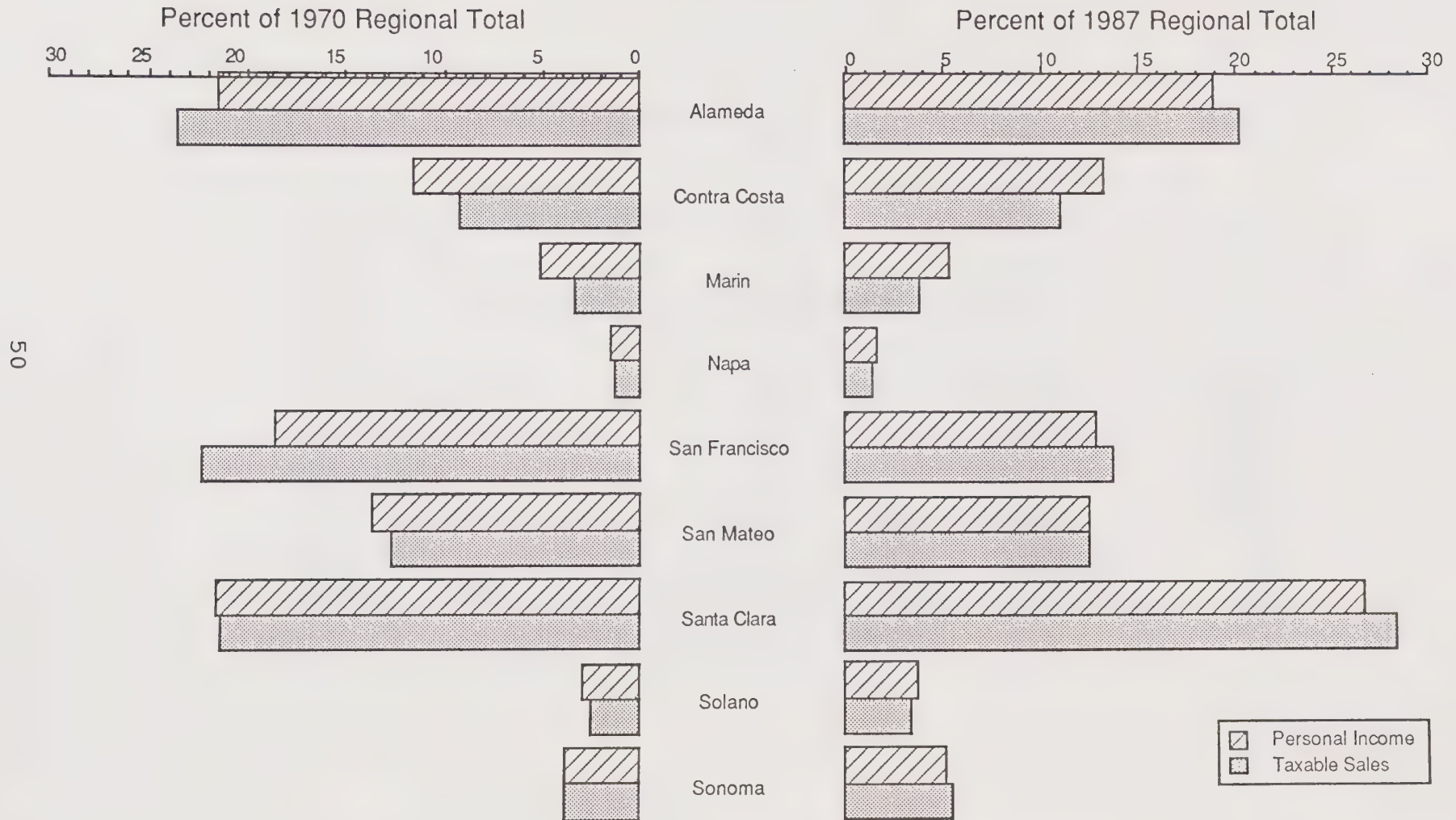
	<u>1970</u>	<u>1980</u>	<u>1987</u>
Alameda	23.6	20.2	20.3
Contra Costa	9.2	12.4	11.1
Marin	3.4	3.7	3.8
Napa	1.3	1.4	1.4
San Francisco	22.3	15.3	13.7
San Mateo	12.6	12.7	12.6
Santa Clara	21.3	26.7	28.3
Solano	2.5	2.9	3.4
Sonoma	3.8	4.9	5.5
Region	100	100	100

Source: Board of Equalization

Factors Affecting Decentralization of Taxable Sales

- Dispersal of Retail Establishments
- Population Growth
- Income Gains

Percent Distribution of Total Personal Income and Taxable Sales among the Bay Area Counties, 1970 and 1987



Source: Board of Equalization; ABAG

Factors Affecting Retail Sales

- Income
- Housing Expenditures
- Interest Rates
- Consumer Optimism
- Demographics

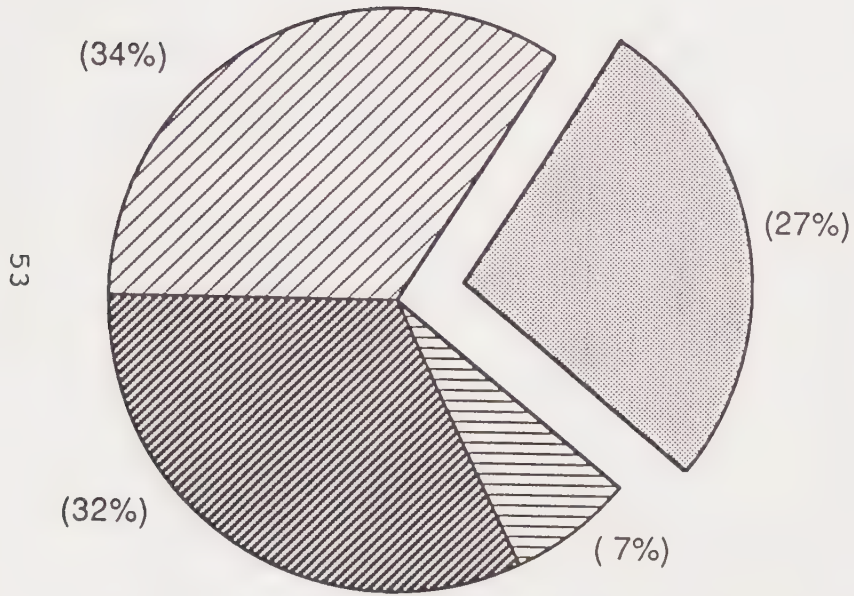
Total Taxable Sales

San Francisco Bay Region, 1980-90

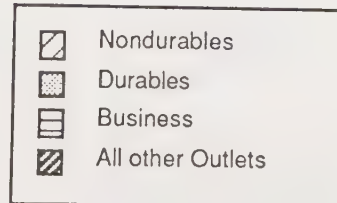
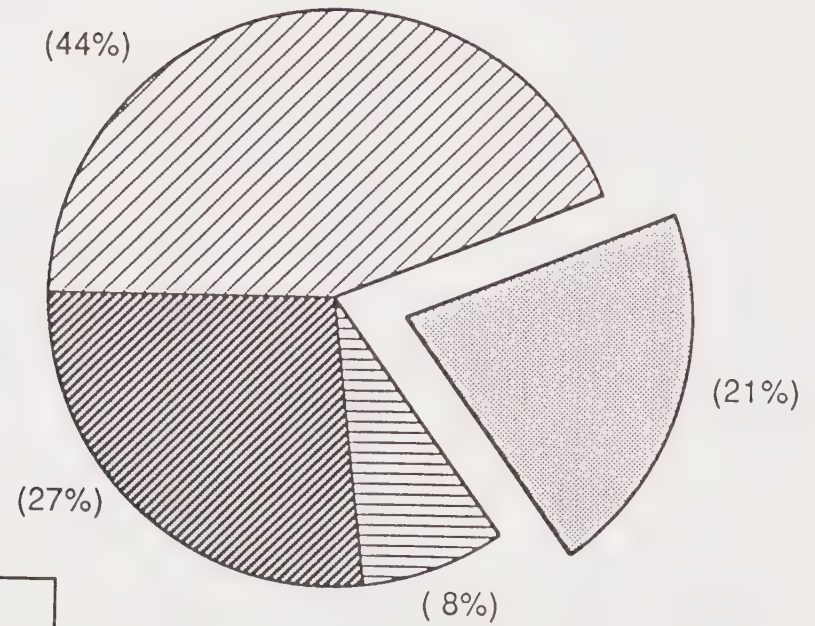
	Total Dollars (In Billions)	Annual Percent Growth (Current \$)	Annual Percent Growth (Inflation-Adjusted \$)
1980-87		7.3	1.9
1988	56.9	7.6	3.2
1989	60.6	6.4	1.3
1990	64.5	6.6	1.5

Distribution of Taxable Sales Gains San Francisco Bay Region 1980-1990

1980-1987



1988-1990



Annual Percent Growth of Retail Stores Sales San Francisco Bay Region, 1980-90 (Current \$)

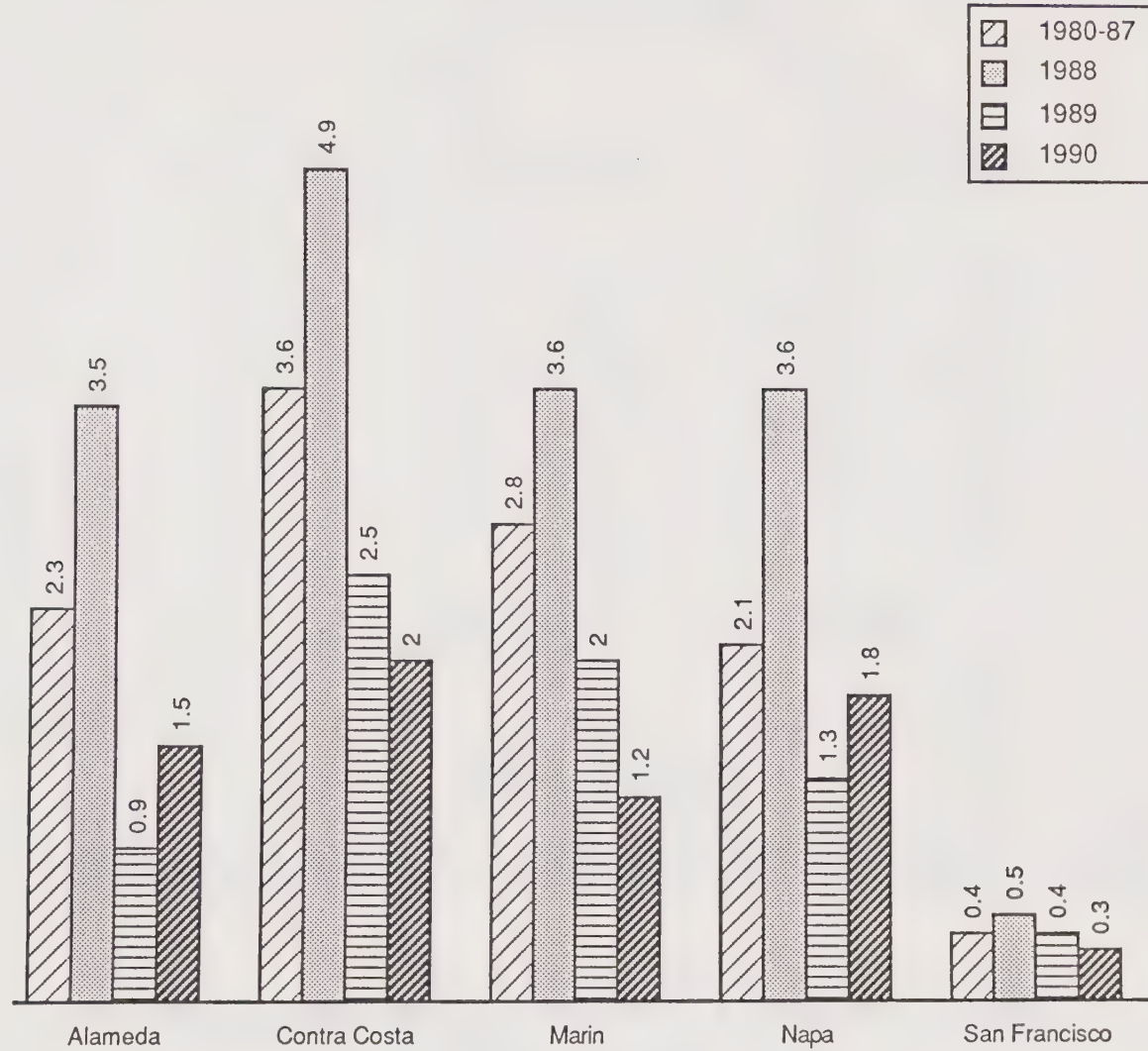
	<u>1980-87</u>	<u>1988</u>	<u>1989</u>	<u>1990</u>
Apparel	7.9	4.2	6.6	6.7
General Merch.	8.0	6.4	5.2	5.7
Specialty	10.0	11.9	7.8	7.7
Food	5.4	3.1	8.0	4.0
Restaurants/Bars	7.8	5.5	6.8	7.3
Service Stations	-4.3	11.8	5.7	4.4
Home Furnishings	9.1	7.1	4.7	7.4
Building Materials	8.0	8.1	5.7	7.0
Auto Dealers	9.7	7.1	6.3	6.7
Inflation	5.4	4.4	5.0	5.3

Increase in Retail Stores Sales Attributed To Stores Selling Durable Goods

San Francisco Bay Region, 1980-1990 (percent)

	<u>1980-87</u>	<u>1988</u>	<u>1989-90</u>
55 Alameda	50	13	22
Contra Costa	39	22	22
Marin	23	35	26
Napa	50	24	26
San Francisco	54	3	5
San Mateo	44	27	24
Santa Clara	46	28	21
Solano	42	16	25
Sonoma	36	20	25
Region	43	21	21

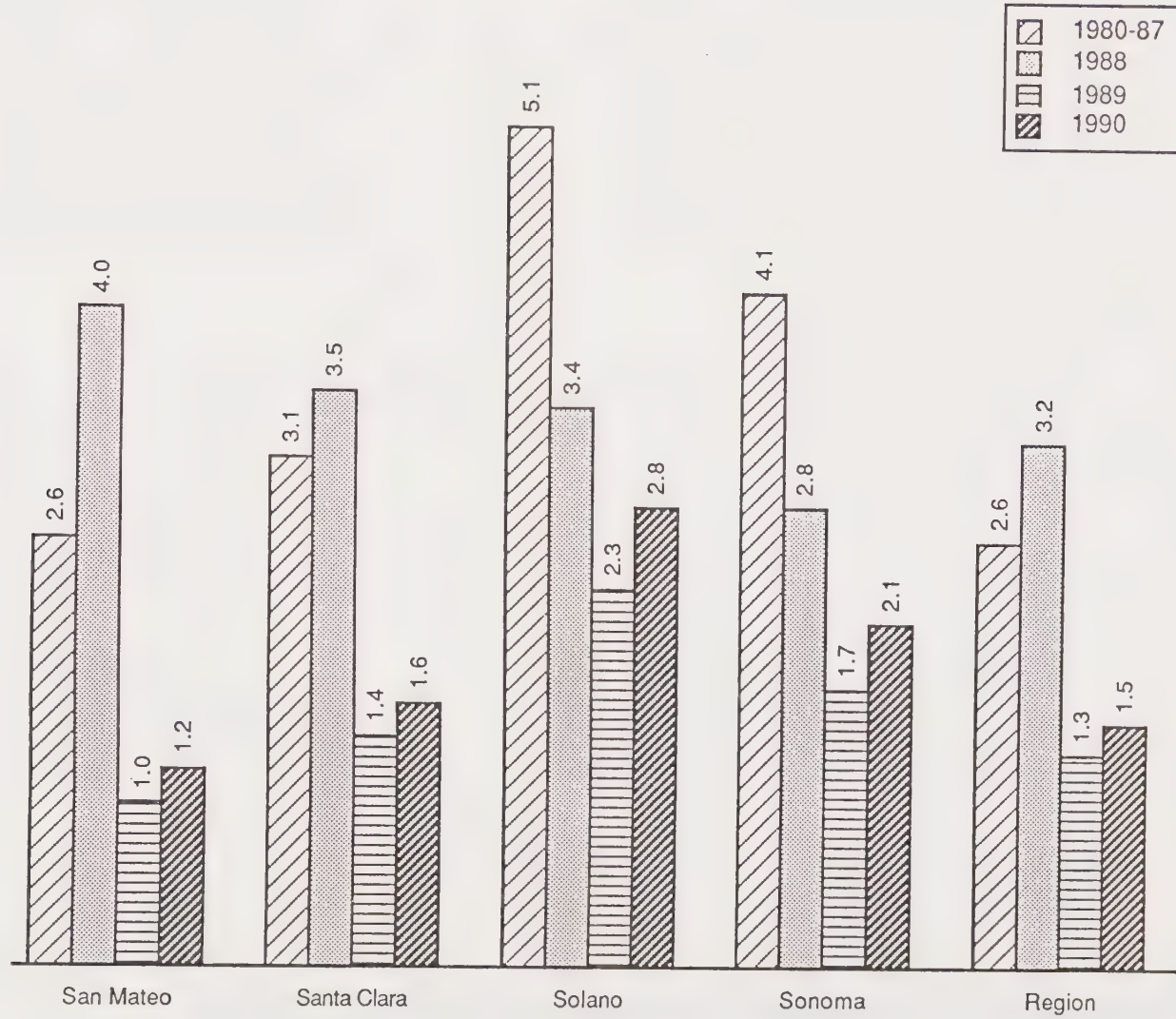
Annual Percent Growth of Taxable Sales (Inflation-Adjusted \$) 1980-1990



Source: ABAG

Annual Percent Growth of Taxable Sales (Inflation-Adjusted \$) 1980-1990

LS



Source: ABAG

Number of Retail Store Permits San Francisco Bay Area, 1980-1990

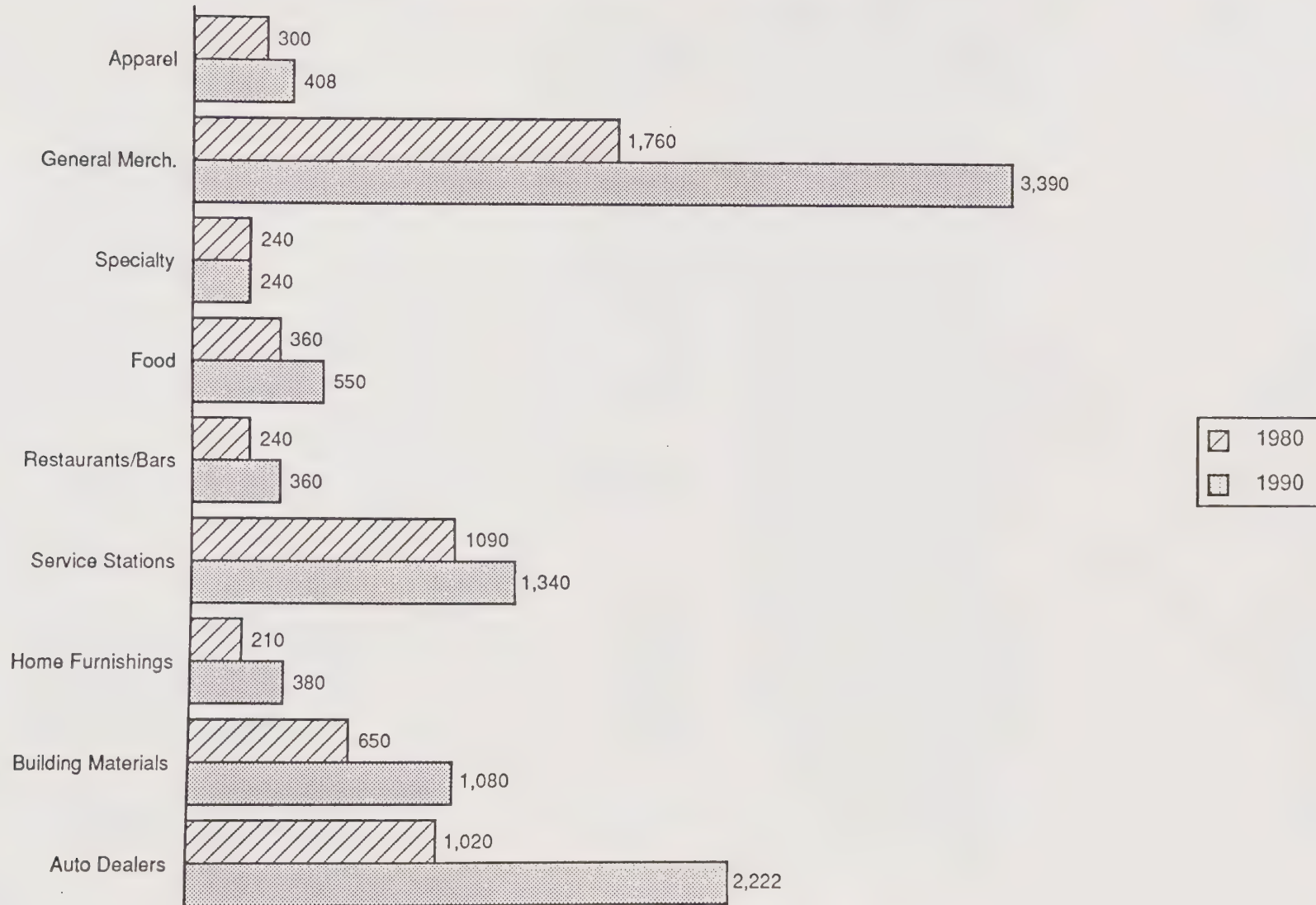
	<u>1980</u>	<u>1990</u>	<u>Percent Increase</u>
Apparel	3,720	5,580	50
General Merch.	2,030	2,140	5
Specialty	10,480	26,880	156
Food	5,850	6,450	10
Restaurants/Bars	11,450	15,480	35
Service Stations	3,110	2,300	(26)
 TOTAL NONDURABLE	 36,640	 58,830	 61
 Home Furnishings	 4,920	 6,095	 24
Building Materials	2,580	3,230	25
Auto Dealers	3,170	3,400	7
 TOTAL DURABLE	 10,670	 12,725	 19

Source: Board of Equalization; ABAG

APPENDIX

The following contains two papers prepared by Walter Hoadley. The first, "Are You Ready for the 1990's?," was presented to a Commonwealth Club of California meeting in San Francisco earlier this month. It provides some practical food for thought on some of the problems we will face in the 1990s. The second paper, "Conference on Economic Challenges Facing the Next Administration: What Practical Solutions Can We Suggest?," is a summary of the a meeting held at the Hoover Institute in November 1988. It is worth reading. These papers are not presented because we agreed with all that is said. Rather, they are presented to stimulate debate on critical economic issues facing us both in the Bay Area and the nation.

Average Taxable Sales Per Retail Store Permit San Francisco Bay Region 1980, 1990 (in thousands of current \$)



Source: Board of Equalization; ABAG

ARE YOU READY FOR THE 1990'S?

Walter E. Hoadley
Senior Research Fellow
Hoover Institution

Annual New Year Address to the Commonwealth Club of California, Noon, Friday, January 6, 1989, Grand Ballroom, Hilton Hotel, San Francisco.

Often it has been said that there is no free lunch. You should know that I have just eaten a free lunch. In fact, I've had quite a few in the course of making presentations to The Commonwealth Club of California.

While I have been eating "free," your cost of listening has skyrocketed. When I first spoke to this Club 20 years ago the luncheon cost was \$3.75 and it is now \$23. This general trend mirrors some of the intervening changes in our economy: Noticeable inflation, lagging improvement in quality, indifferent service, somewhat better surroundings, more varied international menu, smaller portions, decaffeinated coffee and new leadership -- but the same older speaker!!!

Many in this audience -- here and via radio -- who have been listening patiently to my economic analyses and forecasts through the years, realize that I have some biases. Indeed I do and have made passing mention of them. Biases color my observations and outlook. I don't apologize because they have come from experience and have helped my forecasting batting average.

In drafting a recently published book, "Looking Behind the Crystal Ball," I did some soul-searching about my biases to get ready to appraise the 1990's today. Here's what I found:

- 1) Optimism emerges rather consistently. (Chronic doom is useless.)
- 2) My hunt for impending crises never ends. (Tough policy changes are usually made in crisis.)
- 3) I count on the unexpected to include favorable as well as unfavorable developments. (A "plus" factor commonly overlooked in forecasting.)
- 4) I seek the international dimensions of domestic issues. (Global interdependence undeniably is a growing factor in American life.)
- 5) My conviction is to "round up" in projecting America's future. (Our dynamic self-correcting system finds workable solutions in surprising ways.)

The value of "rounding up" when judging economic prospects for the United States became even clearer to me a few days ago when I reviewed the proceedings of President Nixon's 1972 White House Conference entitled, "A Look at Business in 1990", in which I participated. In hindsight, those in 1972 who stressed the flexibility and dynamic spirit of America came closest to anticipating actual conditions as we now experience them at the threshold of the 1990's. Those in 1972 who focused on the overwhelming problems confronting our nation can only be impressed by the actual positive accomplishments during the intervening years.

In 1972, the United States was widely believed to be at a major crossroads facing such issues as: Conflicting global ideologies, public vs private power, bigness, technology, social responsibility, and chronic unemployment. While no final resolution may have come, at least several of these questions have faded as a result of changing public attitudes and policies, breakthroughs on unforeseen fronts, and most important, the innate actions and determination of millions of Americans to overcome crises in their personal and national lives.

A strong case can be made today that America is once again at a critical crossroads just as the Bush Administration comes into office. This time the problems include: Global leadership, budget deficits, debt, competitiveness, and a host of others. Recalling my biases, let's not despair. The task as always is for leaders in all walks of life to face pressing and emerging challenges openly; insure greater public understanding of what is, and how they are, involved (citizens are probably better informed than many observers surmise); evaluate the principal options, and get on with the work to be done. This is how America works best. Moreover, even if leadership lacks timely courage and does not alert the public or call for action, powerful economic and other forces of reality in due course can be expected to bring problems to public attention. The corrective process still gets underway.

General Theme: Reagan vs. Bush

My general theme is simple and direct: The Reagan era unleashed far-reaching private sector management power across the American system and many nations throughout the world. The Bush administration must now unleash more of the participative power of the individual American to help achieve the potential of a great resurgence of national economic vitality and competitiveness in the 1990's.

1988 in Review

My forecast a year ago could have been more accurate if I had pursued my "round up on America" bias more vigorously. When the final figures are in, 1988 is likely to have achieved close to a three per cent real growth rate (my forecast was 1 per cent); 4 per cent inflation (my number); nearer to 5-1/2 per cent (than my 6) in the unemployment rate; and a year-to-year interest rate increase of about 2 per cent in short maturities and a slight decline in the interest rate on long term securities (my overall forecast was 1 per cent).

Principal Conclusions

My customary practice is to offer my principal conclusions at the outset:

- 1) 1989 shapes up with what have come to be called the "Hoadley hot line" economic numbers: "2--4-1/2--5-1/2--1", a somewhat softer year than the one just passed; fundamental economic correction will continue; persistent underlying strength will prevent technical recession; but the Bush administration will walk a policy tight rope confronting intermittent threats of both inflation and emerging recessionary weakness, particularly as budget realities begin to diminish government's role in the economy .

- 2) Most policy moves by the Bush administration will be judged as arising out of economic weakness rather than strength; the United States and its citizens will be hard pressed in 1989 and the years beyond to demonstrate that this nation is solidly on the road to economic resurgence and renewed global economic leadership.
- 3) In contrast with the 1980's, which were marked by well sustained real growth and record employment expansion, of necessity the 1990's will be characterized more by consolidation of American economic power and far greater attention to improving the quality rather than the quantity of economic life.
- 4) The United States in the 1990's -- no longer able to afford to do so many things for so many peoples at home and abroad -- will be forced to bargain much tougher and to hammer out more enduring domestic and international priorities.
- 5) Large segments of Americans at present seem unchallenged and unprepared for the 1990's. The potential is high for resurgence of American determination, enthusiasm, discipline, and economic strength as soon as enough Americans come to understand their personal stake in the success of our nation in meeting the challenges ahead. I am confident that resurgence will become increasingly evident as the decade of the 1990's unfolds.

Expect 1989 To Witness More Economic Corrections

1989 might be described as the year of "hummingbird economics"; policy makers will flit from anxiety to anxiety and economists will flit from hedge to hedge. My "hot line" numbers tell the story: 2--4-1/2--5-1/2--1.

Real growth at 2 per cent reflects continued fundamental strength amidst strong crosscurrents in the economy. The year will start well but faces an ongoing struggle to keep much ahead of 1988, partly because of a statistical quirk in how the economic impact of the drought was measured in 1988. Gains can be expected in exports and capital investments, but consumers will do well to maintain their spending. The private sector will be the main determinant of the trend for the year. Government will be constrained by budget limitations.

Inflation around 4-1/2 percent will cause concern because of ominous developments arising from the weak dollar, labor shortages, lagging productivity, and food and energy prices subject to drought and OPEC uncertainties.

Unemployment close to 5-1/2 per cent will approach technical full employment. Lack of capable job seekers will confront many employers. Some slight increase in unemployment is likely as the economy slows.

Interest rates will experience some further temporary fractional rise into mid-year followed by levelling and possible decline as the economy cools. Inflationary developments and accompanying Federal Reserve concerns will firmly influence interest movements, but changes should remain within one per cent. Hopefully at year end the ultimate direction will be down.

The United States economy is passing through an extended period of fundamental correction. The root causes include: Our country living somewhat beyond its means for the past three to five years; intensified international competition; shortages of skilled and motivated workers as well as effective management personnel; and growing provincialism accompanied by public disinterest in international economic and political developments.

The correction process began early in this decade in manufacturing and has subsequently spread to mining, agriculture, energy, real estate, education, religion, and many other sectors. Currently, services, professions and government are facing fundamental reappraisal, restructuring, and downsizing. Correction will continue for several more years with both disruptive and economically therapeutic results for the sectors involved. Fortunately, corrections to date have not shown a tendency to cumulate into major weakness impacting the whole nation.

Economic Weakness Expected In The United States

Last year I reported widespread global expectations that the United States would emerge weaker after the 1988 Presidential election. Such concern is still evident and reflected in the churning stock market. Comments are frequently heard that our economy is out of balance, if not out of control, with grave doubts that American leadership has the ability and will to bring it back into balance and control. At inaugural, President Bush will be the direct leader of 4.6 percent of the world population.

A stronger or weaker image for the United State will depend heavily upon measured progress in resolving 10 major economic problems which this country faces. Resolution of at least five such problems during this year and in the early 1990's will be needed to convince many skeptics that our country is really on its way to economic resurgence.

Here's an updated economic progress report:

1. Budget deficit - stalemated; recession would be disruptive.
2. Trade deficit - solid progress.
3. Inflation - worrisome.
4. Interest rates - rising; already too high.
5. Financial system - vulnerable.
6. U. S. dollar - still losing value.
7. Inventories - reasonably balanced.
8. Protectionism - temporarily subdued.
9. Capital flight - U. S. too dependent on foreign savings.
10. Competitiveness of U. S. firms - improving in manufacturing.

My summary progress reading on these problems is: 2 positive; 2 neutral, and 6 negative. Obviously, there is much for all Americans to do to improve this economic performance. Once achieved, we can expect a surge in confidence and a stock market resurgence.

The 1990's Will Be Different From the 1980's

The current U.S. expansion, in its seventh year, has set a remarkable record for sustained economic growth. Unfortunately, many Americans -- even after the stock market crash of 1987 -- take the health of the economy pretty much for granted. History reminds us that such an attitude can be dangerous. Admittedly, forecasting is far from a precise science and most economists have long predicted and are still predicting a recession within the next twelve months. Yet, recession has been avoided, in part, because of ongoing expansive fiscal (i.e., budget deficit) policy, but other forces also have been at work: Pent-up consumer and investment demands; super abundance of funds; foreign acquisitions and investments; and a surge of old fashioned entrepreneurship aided by widespread deregulation.

In the 1990's these same forces will be operative but very likely to a lesser degree. The Bush administration faces an economy which has far less slack in human and technical resources available for growth than when the Reagan presidency began. Moderate growth will be essential to sustain economic momentum and offer opportunities for employment. More than moderate growth, however, would pose a threat of intensifying inflation and boom and bust conditions. The new President will walk an uncommon economic policy tight rope between intermittent threats of inflation and recession.

The challenge before Americans now is to use resources more efficiently. Almost unknowingly we have become wasteful because of our traditional national abundance. We still have great abundance relative to other nations, but in present circumstances we can ill afford to continue many past practices.

Virtually every sector, institution, family, and individual, not already touched, will be subjected to some degree of reappraisal during at least the first half of the 1990's. This correction process, at times disruptive and even cruel, reflects the dynamics of the American system -- always striving for the new, the better way. Whatever cannot stand the test of time is almost certain to fall by the wayside. Obviously, this calls for considerable public understanding, patience, compassion, and prompt attention to needs to cushion and retrain those being adversely affected.

What can we foresee more specifically for the 1990's? How will each one of us and the institutions which we represent adjust? We need to ready ourselves for such likely developments as these:

- 1) Substantial technological breakthroughs will obsolete at least one fourth of current knowledge and accepted practice.
- 2) International economic interdependence will relentlessly erode American provincialism amidst lagging political interdependence.
- 3) Chronic shortages of qualified workers will plague employers and force drastic changes in human resource policies and programs.

- 4) A worldwide shortage of capital will arise as socialist and many developing nations compete with industrial countries, and the latter compete among themselves, for funds.
- 5) Foreign subservience to the United States (and the Soviet Union) will diminish; economic-political blocs will emerge.
- 6) A multi-currency foreign exchange system will be formalized with a lessening role for the U.S. dollar.
- 7) The United States will have to learn to live on less borrowed funds from abroad).
- 8) Tempering or balancing of American democratic rights will occur with new emphasis on personal responsibility for the consequences of unfettered freedom of action on others; some reregulation will occur.
- 9) Racial, cultural, and ethnic tensions will threaten the social, political and economic system unless there is open and clear communication and understanding among all peoples and development of substantial numbers of acceptable multi-racial leaders.
- 10) The traditional cleavage between sectors (public, private for profit, and private non-profit) will soften of necessity as Americans realize the urgent need to achieve more cooperation and consensus in the national interest.
- 11) Team leadership and organization will move to the forefront of business and other management thinking with more common sharing of responsibility for results and profit distribution.
- 12) Erosion of moral, ethical and religious values which underlie the U.S. Constitution can only be ignored with national peril.
- 13) The escalating economic power of pension funds to dominate financial-investment markets will be challenged.
- 14) The U.S. legal system will be subjected to critical review because of excessive cost, promoting divisiveness, impeding economic progress, and contributing to substantial conflict of interest within the elected legislative-judicial complex.
- 15) The media will be judged increasingly to have measurable educational impact on the nation and will be challenged to contribute more to educational reform.

Obviously, this list is not exhaustive. Unforeseen developments may well dwarf several of the foregoing. Clearly, there is much to get ready for in the 1990's. The most important first step is likely to be mental, i.e., to visualize how living will be in the midst of these changes, to seek to minimize shocks, and to accept some responsibility for making such changes constructive.

United States Can No Longer Afford To Be As Generous

For decades the United States has managed its affairs with considerable success without explicit major goals or strategies. Political leaders, except in war and depression, have dealt with problems pretty much as they have appeared.

There has been relatively little concern about the impact of specific policy decisions on other sectors or the longer term economy as a whole. In general political thinking has been dominated by the perspective of a rich, growing white nation. The Congressional multi-committee spending process has contributed to this point of view. Adding up the costs of even well intentioned programs to reach a controlled and affordable total either has not been done seriously or ignored as beyond the influence of individual legislators and separate committees.

Much of this must now change. It won't be easy or quick. The national debt approaches \$3 trillion; annual budget deficits exceed \$150 billion; yearly interest payments on the federal debt are a substantial and growing portion of all government outlays; trade and current account deficits continue to arouse fears among foreign exchange dealers and weaken the already badly battered U.S. dollar. These trends are definitely not sustainable.

An urgent task for the Bush Administration, in cooperation with the Congress, is to set a few very high clear-cut priority goals for national policy and action. Voters must come to understand that priorities not only are essential, but public consensus is needed to support them.

Domestic and foreign policy must clearly demonstrate that some programs are more important than others. Foreign leaders and diplomats must be warned that the United States cannot act as generously as in the past and that our public and private negotiators will have to be tougher bargainers. We must explore all options and mutual interests, but will require more quid pro quo than in the past. This change in American attitude no doubt will be resented, particularly since many people overseas have long believed that our nation is already too tough and demanding.

The message to the American people is similar. We will be forced to follow more frugal domestic priorities and be slow to add new government financed programs, however desirable, without reducing or eliminating some existing ones. The choice is temporary limited austerity, or drift; indecision; and eventual major crisis not only in the United States but overseas. Some sacrifices, e.g., slowed consumption, higher savings, postponements of desired funding, and abandonment of programs undoubtedly will be required. Every effort will be made to avoid outright tax increases, but we should be prepared for user fees, surcharges, and other levies. Much will depend upon how well the new President and the Congress can agree on spending constraints and controlled use of new revenues to cut the budget deficit.

Many Americans Seem Unchallenged and Unprepared for the 1990's

How many Americans are ready to accept and deal with these prospects is an open question. As suggested, challenges and crises tend to bring out the best in most people. My analysis has endeavored to show that the United States does indeed confront some serious economic problems that can't be downplayed or ignored much longer politically. Millions of Americans must be made more aware of the trends outlined here, given assurance that they have an important role to play in helping to resolve problems, encouraged to make their best effort in whatever they are doing, and urged to share some responsibility for national improvement through their own performance -- not as a patriotic gesture, but in their own personal interest and the future well-being of their family and neighbors.

President Bush's leadership will be tested in part by how many Americans he can get out of their spectator seats in the economy and onto the playing field of competitive economic realities. For many years political leaders have asserted their authority to manage government, and indirectly the economy, with a minimum of risk for themselves. Rarely have they asked the people to do anything to help strengthen America. Too often it seems that about all they have wanted from the people is their vote.

We now have a somewhat confused nation, expecting perfect conditions in all aspects of life, indignant when not attained, ready to blame (i.e., go to court) someone for almost any mishap, and gleefully anticipating punitive damages. How can we expect the average American to do his or her best pursuing contradictory motivations of complacency and fear of making a mistake?

Let's continue to set our standards high and keep them rising. But, let's stop tearing our nation apart by raising unrealistic perfection expectations. We all know that we are human and make mistakes, including the next President of the United States.

No earthshaking event can be expected to take place at midnight on December 31st when the 1980's bow out and the 1990's make their entry. But, from the trends we can now see, the 1990's won't and can't be perfect. They certainly will be different. They can and will also be better in many ways. But they won't be the same. I repeat, we will need the very best from each of us -- sector, generation, race, culture, neighborhood, and individual to preserve our living standards as well as to continue to contribute to the peace and economic stability of the world in which we will be living.

This nation has a long history of responding when the President openly discusses a major problem, presents a convincing case for action, outlines the practical options, demonstrates why a particular course is best, assures the people that whatever sacrifices are needed will be shared fairly, and calls for personal citizen help.

There are at least three ways to get ready for the 1990's: (1) Fight hard for the status quo and be overwhelmed by reality; (2) cringe in fear and live a miserable existence, or (3) take stock of our personal and national strengths, determine to capitalize on opportunities for progress, join with likeminded people, forge a consensus including as broad a mix of Americans as possible, and live a challenging and rewarding life knowing that being involved means contributing directly to the resurgence of the United States with benefits for much of the world as well.

Will you join me in getting ready for the 1990's?

CONFERENCE ON ECONOMIC CHALLENGES FACING THE NEXT ADMINISTRATION:
WHAT PRACTICAL SOLUTIONS CAN WE SUGGEST?

Summary and Conclusion
by
Walter E. Hoadley, Conference Chairman
Senior Research Fellow
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The conference was convened on November 14, 15, and 16 to develop constructive and practical economic policy guidelines for consideration by the new Administration. We met at a time when most overall measures of economic performance were positive with the American economy at or close to full employment. The most obvious goal was seen to be to preserve the ongoing strength of the economy, while making progress in the resolution of current and impending challenges.

The Conference Steering Committee selected from an array of possible economic issues a few strategic ones which appeared likely to increase in importance in the years just ahead. The participants included many ranking economic forecasters and decision makers of our times. No effort, however, was made to make detailed economic forecasts, although forecast dimensions arose as each issue was discussed.

An overriding question before the Conference was the future strength of American economic leadership. This concern is a topic of extensive worldwide discussion. American economic leadership is widely perceived to have weakened and is expected to weaken further. In part, this perception reflects much needed, and U.S. supported, rapid growth of new industrial and developing nations. But, it is clear that American economic leadership can no longer be taken for granted. It must be continually re-earned. Visible progress must be made in resolving major economic challenges and by demonstrating superior overall economic performance. The task was seen not to be easy but within reach.

Few polls were taken, but the Conference chairman and rapporteurs can report a good deal of consensus on what the new Administration faces and what it must strive to accomplish. A working summary of discussion and policy recommendations follows:

The General Economic Environment

President-elect Bush will be greeted by an economy which is fundamentally strong, but facing an extended era of economic correction prerequisite to new resurgence a few years hence. Policies which will bring Americans closer together to shape a

fiscally challenging and globally competitive future are now urgently needed.

- Participants showed concern that one or more economic crises could occur during the next four years (i.e., savings and loan institutions, capital flight, security markets, junk bonds, dollar, LDC debt, etc.). Very prompt attention is needed on these issues. No disaster, however, was deemed to be around the corner.
- Everyone was reminded that the dynamic American system has been repeatedly tested and resurged. It relentlessly forces excesses to be reduced and weaknesses to be overcome. Moreover, the system demonstrates that positive as well as negative developments can occur unexpectedly.

The U.S. Position in the World

Americans must now acknowledge that the role, scope and power of the United States (and the Soviet Union) are declining.

- At inauguration, President-elect Bush will be the direct leader of 4.6% of the world's people. The Western democracies together account for about 15%. Anti-subservient attitudes toward the United States must be expected. America will be able to maintain global respect and leadership only by continually re-earning what has been won by superior performance and leadership.
- Foreign investors and lenders show growing reluctance to underwrite increasing U.S. deficits until remedial action is taken. There is a strong and growing demand generally for the United States "to get its economic house in order".
- The quality, experience, creativity, problem solving capability, and integrity of appointments to top level positions will be crucial in framing the new image of the United States government and the outlook for our nation as well.

The American People Need to be Better Informed

The time has come for political leaders to put more real economic challenges openly and forcefully on the public table.

- The choice seems clear: face directly that the United States has been living beyond its means in recent years and seek understanding and resolution on all sides, or drift from crisis to crisis, perhaps on an accumulating basis. Reduction in the federal budget deficit emerged clearly as the Bush Administration's highest economic priority.

- A major task for the new Administration will be to instill ongoing confidence among a citizenry which has become somewhat lulled into complacency by the recent prolonged period of uninterrupted economic growth. Many Americans seem unchallenged and unprepared to make sacrifices at a time when some are likely to be needed.
- America has much to do internally to improve infrastructure, combat drugs and disease, enhance education, reduce homelessness, etc., all which require more funding. Clearly, some spending priorities will have to change.

Any Recession Near-Term Could Be Very Harmful

An economic downturn must be avoided and moderate real growth sustained. Otherwise, considerable economic and financial unraveling will occur.

- Traditional monetary and fiscal policy tools remain appropriate for economic stabilization purposes. The present federal budget deficit, however, reduces the effectiveness of anti-recession measures.
- Other tools, on occasion, can be used for short periods, but too often introduce more instability than they purport to correct.
- It was noted that public expectations must be in line with what economic policy tools can, in fact, achieve. It is dangerous for Americans or any others to anticipate a perfectly stable, moderately growing, and riskless economy.
- A general economic correction process began earlier in this decade in manufacturing and is proceeding sector by sector through the economy as America reacts to intensified global competition, changing labor force composition and skill requirements, and mounting indebtedness.
- There must be a gradual reduction in public and private needs for foreign savings.
- While consumption must be well sustained, more public attention must be given to use of financial resources for longer term investment rather than immediate satisfaction. Interest deduction for tax purposes must be reappraised in light of leverage excesses and related loss of government revenues.
- Government levies to constrain consumption rather than income are believed to be on the economic agenda ahead. Tax changes were not generally recommended but are widely expected.

The U.S. Must Bargain Tougher

The United States cannot afford to be as generous in world and domestic affairs as in the past.

- This pragmatic change is certain to be misunderstood and likely to be resented. But, Americans do not have any alternative but to become tougher bargainers and demand more quid pro quo.
- The free world depends heavily upon this nation for primary leadership and stability. No other country is ready, willing, or able to step up to the global responsibilities of America. Therefore, there is a firm basis for more coordination and cooperation among at least the Western democracies.
- For Europe, 1992 looms as an important year of economic consolidation and growth. American military presence is widely anticipated to diminish and relations with the Soviet Bloc to improve. Such developments could foretell "Fortress Europe" vs. the U.S.
- An early round of talks by the President-elect and his top officers with our allies is urgently recommended to deal with the leadership issue and such others as burden sharing, trade negotiations, credits to the U.S.S.R., etc. Substantial caution was expressed toward lending to communist nations, but transactions involving hard currencies or equivalent were favored. There will be major opportunities for mutually beneficial agreements under new American leadership or serious risks of conflicts if a global leadership vacuum develops.

Financial Correction Causes Rising Concerns

Financial correction arises because of excess capacity in the present system, attributable to deregulation and technology; overly broad guarantees; lack of overall supervisory authority and resources; exciting but untested new financial products; weak managements; and extensive pockets of undue speculation and greed.

- Further losses and failures will be unavoidable. Some progress in resolving troubled financial institution problems is being made through innovations which the new Administration should pursue.
- Americans need at least some comparative reduction in the real cost of capital to insure greater competitiveness. Here again, the federal budget deficit was cited as a root cause.
- A new global and domestic financial system will be forming

over the next five to ten years.

American Provincialism Limits Opportunities

The Bush Administration must strive diligently to lift the international horizon, skills, and perspective of the American public.

- This will be essential to ease growing tensions across races, cultures, and ethnic communities.
- It is also important to prepare more domestic business and other leaders to find opportunities in international markets following the 15% who now do.
- American provincialism is incompatible with increasing global economic interdependence. The prospects are enormous once many anti-international mental blocks are eased.

A Higher Motivated Quality Workforce is Crucial

Human resource development looms as an urgent necessity if this nation is to have the capacity to grow productively to meet foreign competition as well as to serve its own requirements in an increasingly complex technical economy.

- A mounting underclass poses major economic and social threats which can only be met by greater public understanding and involvement. Increased utilization of new and developing learning (not just teaching) technology will be essential to reach every segment of the population.
- Existing resources should be redirected rather than each problem seen as calling for an add-on new program.
- A special challenge will be to locate and train more cross-cultural leaders in America in all walks of life.
- A more aggressive program of technology transfer from government research and development for military and space to the private sector is urgently needed.
- New management techniques are evolving across the world with remarkable improvements in quality and productivity. Successful operating models in the U.S. are using a more participative workforce. Opportunities to improve U.S. competitiveness abound to the extent that such approaches are employed more widely.

Foreign Investment is Economically Desirable

Foreign investment and ownership in the United States are seen generally to be highly desirable from an overall economic viewpoint, but are already threatening to become a source of controversy in some localities.

- The size and speed of growth in foreign ownership are seen increasingly as depriving more and more Americans of opportunities for housing and jobs.
- Offshore decisions affecting United States workers and investors are growing with accompanying suspicions and tensions.
- Participants generally opposed controls over foreign takeovers except in clear-cut cases where national security would be at risk.
- Overseas investors were urged continually to demonstrate that they are acting in the United States' public interest as well as their own. Foreign nationals, especially executives, should be encouraged to enter more visibly into American community affairs to enhance international understanding and therefore their own image in America and thus lessen public concerns.

Moral and Ethical Values Need Attention

An underlying conference concern is the erosion of moral and ethical values across this nation.

- The Constitution and the American system as a whole are firmly based upon certain principles deemed essential by the Founding Fathers: faith in God, understanding between right and wrong, and mutual respect. Without weakening the traditional separation of state and church, means must be found to check current disturbing trends in the general area of integrity and mutual trust.

Concluding Observations

The conference ended on the same positive note on which it began; namely, that the American economy, despite its many challenges, is still fundamentally strong and more adaptable to change than any other.

- There was agreement that each challenge must be faced directly and openly with the public, well defined and studied; remedial policy options developed and debated; and a course of corrective action proposed and implemented as quickly as possible.

- As the conference adjourned, there was a strong feeling that American leaders should strive to cause more successes and bring them to the attention of the United States public as well as others abroad to combat chronic negativism in the media and elsewhere.
- The next four years almost certainly will see some unusually difficult periods of correction, but there was no doubt that our nation would reemerge with renewed vigor and vision.

The wealth of talent and experience among the conference participants is pledged to be available to President-elect Bush and his transition team.

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